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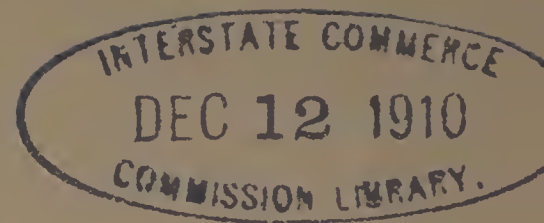
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AN ADDRESS

BY

MR. DANIEL WILLARD

AT THE ANNUAL DINNER
OF THE

RAILWAY BUSINESS ASSOCIATION

Waldorf-Astoria Hotel, New York,
Tuesday Evening, November 22, 1910.

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ADDRESS BY MR. DANIEL WILLARD.

ANNUAL DINNER RAILWAY BUSINESS ASSOCIATION, WALDORF-
ASTORIA HOTEL, NEW YORK, TUESDAY
EVENING, NOVEMBER 22, 1910.

Nothing but my feeling of duty to co-operate with your organization in whatever way might seem to you desirable, could have overcome my extreme reluctance to making a public address. The industries represented by your association constitute a powerful economic force, and your organization has for the first time brought that force to bear on public opinion. It was fortunate for the railways of this country, and I believe a fortunate thing for its commercial industries as well, when the Railway Business Association was formed. You have already performed a most valuable service in the way of bringing about a better understanding between the Railway Managers and the Railway users, and your efforts in that direction deserve hearty recognition. I do not hesitate to say that the railroads fully appreciate and gladly acknowledge what you have actually accomplished and will welcome a continuation of the same policy.

The American Railroad System as it stands today represents an investment, as measured by the outstanding capital securities, of over \$13,700,000,000. Its total length of main line is over 236,000 miles and its annual earnings from operation amount to \$2,500,000,000. This great industry furnishes direct employment, in times of prosperity, to more than 1,500,000 men, and it has been estimated that indirectly it furnishes employment to more than 2,000,000 others, such as work for the car and locomotive builders, in the steel mills, in the forests and in the mines, so far as such operations are affected by the actual requirements of the railroads.

Lord Bacon, writing more than 300 years ago, said: "There be three things which make a country great and prosperous—a fertile soil, busy work shops and easy conveyance for men and things from one place to another." If Lord Bacon was right and if the railroads did come in response to a well recognized public demand, which demand, judging by the present magni-

tude of their operations, was a real and not an imaginary one, then, I think, we might expect as a natural sequence, that those who have contributed largely either of money or of personal service and ability to bring into existence this great industry would be looked upon as ones who deserve well of their day and generation.

What are the facts? An apparent general distrust is felt of those now largely in control of or responsible for the operation of the roads. This distrust finds its chief expression in the innumerable laws proposed and the great number actually passed intended to regulate almost every feature of the service; laws, many of which, in a general way have done much to discourage railroad development as well as to chill initiative. If one were to believe half that the public has been told in this connection, he might well conclude that the railroad system as a whole has been conceived in sin, reared in iniquity, and that there is no good in it.

Let me bring to your attention some few opinions that have been expressed concerning the American Railroad System by students of affairs, not residents of this country.

✓ Mr. W. R. Lawson, who investigated our railroads in 1903, wrote upon his return to England in his book on "American Industrial Problems," as follows: "The science of transportation is going to be the special contribution of the American people to political economy."

✓ Mr. Nevill Priestley, Under-Secretary to the Government of India, Railway Department, came to this country in 1904 for the purpose of investigating our railroads. Among other things he said in his report: "American Railway men are quick to see a new idea; they are quicker still to try it. That their methods are not always perfect is what might have been expected, but they have managed to do what no other country in the world has done, and that is to carry their goods traffic profitably at extraordinarily low rates, notwithstanding the fact that they pay more for their labor than those of any other country. It is in the study of how they do this that much benefit can be derived by other countries."

✓ Mr. Leroy Beaulieu, a distinguished French Economist, who visited this country in 1905 and made a careful examination of American economic conditions, wrote as follows: "If, therefore, one were in search of model railway methods, it would be wise to turn to those practiced under the free American System—not

to those illustrated by a system operated under the debilitated control of the State."

In the Official German Report of American railroads made by Messrs. Hoff and Schwabach, members of the Privy Council in 1904, is to be found the following: "If Germany, like the rest of the civilized nations of the old world, has grown stronger and gained a new life through the construction of railroads, the United States, at least what we include in this designation, has been actually created, properly speaking, by the building of railroads."

Why such liberal recognition of meritorious accomplishments from European investigators and at the same time such evidence of distrust at home? I believe, and the response to the appeals of your organization clearly demonstrates it, that the great body of commercial and industrial opinion of the United States, if it cared to give utterance, would testify freely to its appreciation of the service generally rendered by the railways, and to its disapproval of any public policy which might tend to impair their usefulness or retard extension. Much too often, the largest consumers of transportation, and employers of labor as well neglect to take sufficiently active part in the development and dissemination of conservative opinion. Nevertheless, while I think the views expressed by the European gentlemen just quoted were justified by the facts, yet, paradoxical as it may seem, the distrust at home has also much justification in fact, or rather, it did have at one time. I do not think, however, that such is the case today.

I am extremely anxious to see a better understanding reached, between the railroads and those who use them; but, I have never seen any substantial or lasting progress made towards such understanding by parties holding views greatly at variance, until they were both ready and willing to accept the truth, if it could be found, and then act accordingly.

The American Railroad System is the result of private enterprise. It has been built up with funds voluntarily furnished by those who have invested their money in railroads for exactly the same reasons that would have prompted them to invest in any other commercial enterprise or undertaking—that is, the hope of private gain. But—and this is very important—the railroad, because of its very nature, is not a strictly private business, or rather, while it is in one very important sense a private enterprise, it is also charged with a public duty to

perform and owes its existence to that fact. This fact, peculiar to railroads, has now become so thoroughly established by Court decisions and otherwise, that we are apt to forget that when railroads were new, and in fact up until a comparatively recent date, it was largely lost sight of by the roads, speaking of them in a personal way, and quite forgotten or pushed aside for the moment by the public, chiefly because of the great demand in all directions for more railroads, and an apparent indifference as to how it all came about, so they got the roads.

The American Railroad, except in the extreme East, has almost universally gone ahead of the population or even the settler. The building of a railroad under such circumstances was a hazardous undertaking. Men could not be found willing to assume the altogether too apparent risk of loss, unless in some manner there was thought to be something which promised large reward. In many instances large reward was realized. Had it not been so there would have been no railroads. Similar risks were assumed in other enterprises in a new country and similar expectations of large reward were indulged in and just as frequently realized.

In the course of time complaints began to be made that the railroads were showing special favors to some individuals and communities and withholding such favors from others. It was claimed that rebates were being granted the better to cover up the transaction. It was claimed also that the railroads charged less in some instances for a long haul than for a shorter haul when the circumstances were substantially the same. It was claimed that the railroads exercised a controlling influence over some of the legislative bodies, largely through the issuance of free transportation and in some cases the actual payment of money. It was claimed that the railroads were over capitalized and that in some instances large fortunes were made by improper, not to say illegal, practices in that connection. Doubtless there was cause for these complaints. To hold otherwise would be to hold that men engaged in railroad affairs were not subject to the same human limitations and weaknesses that are known to be the common heritage of mankind. It was claimed that the pooling practice, at that time much in evidence, was inimical to the interest of the shipper and its abolishment was demanded, though so far as I am able to learn, no general complaint was ever made that rates, as a

whole, were excessively high. Other minor complaints against the carriers were also registered.

The feeling aroused by these various practices finally found expression in laws, notably the Interstate Commerce Act, with successive Acts amendatory thereof.

Granting, for the sake of argument, that the builders, owners and managers of the railroads were in common with the rest of mankind subject to all the weaknesses and limitations that the human race is heir to, let us see how much foundation in fact there is, or ought to be, at the present time for such distrust as still seems to exist.

The rebate and unjust discrimination have disappeared, or, if not altogether, then the relief is to be found in the enforcement of the existing law. I submit no additional law is necessary in that direction. The long and short haul question seems to be fully covered by the recent amendment. Recognizing, however, the far reaching effect the so-called long haul practice has had upon the general commercial and industrial development of this country, Congress has seen fit—wisely, I think—to give the Commission much latitude concerning it. A strict and literal enforcement of the law would mean commercial disaster to many communities.

The influence of the railroads upon legislation has been, I believe, largely if not entirely eliminated. This has come about partly by the people requiring of their representatives a closer accountability and partly by the fact that the railroads, recognizing the higher ethical standard concerning such matters today, have endeavored to adjust their practices in harmony therewith.

The claim that the American railroads are over capitalized is still urged in some quarters. In that connection the following comparisons are interesting:

Capitalization per mile of railroad is—

England	\$275,040
Belgium	169,806
France	139,390
Austria	112,879
Germany	109,788
United States	59,000

In my opinion to duplicate the American Railroad System today would cost a sum very much in excess of the existing capitalization, and while I do not believe a physical valuation of the railroads would serve any useful purpose, I am convinced that the railroads have nothing to fear in that direction.

Mr. James J. Hill, whose knowledge of this subject rests upon the most careful thought and inquiry has well said: "The American Railway pays the highest wages in the world out of the lowest rates in the world, after having set down to capital account the lowest capitalization per mile of all the great countries of the world."

In my opinion, if there is any one thing distinctively American, of which all Americans ought to be proud, it is the American railroad system, for, as stated by Mr. Hill, it has paid the highest wages and sold its output—that is, transportation—at the lowest price and at the same time has furnished more transportation per dollar invested in facilities than any other country in the world, and it has done all this not *because* of protection, but *in spite* of it.

While the railroads, as they stand today, have cost nearly \$14,000,000,000, as shown by their outstanding capitalization, it is certain that the development of the country will make necessary further large expenditures for additions to and betterments of the existing lines. It has been well stated that one billion dollars a year, for a number of years at least, will be absolutely necessary for these purposes. How will the money be obtained? By offering something in the way of a security sufficiently attractive to make the money forthcoming; for, as one of the honorable members of the Interstate Commerce Commission has well said:

"We can provide by legislation the sort of cars which a railroad shall use and the rates which it shall impose, we can not by legislation force one single dollar of private capital into railroad investment against its will."

The cost of railroad operation has been increasing for some years, and there is no apparent reason for thinking that this upward tendency will cease. It has been due in part to higher prices for material, higher wages paid for labor, to the higher standard of service demanded by the public, and to various legislative requirements, such as the hours of labor law, the

so-called "Full Crew" bill, etc. Please understand that I am not criticising the laws referred to, nor am I complaining because of the higher standards of today; but, whether good or bad, necessary or unnecessary, they serve to increase the cost of operation and to that extent reduce net earnings. During the last ten years particularly, the American railroads have spent enormous sums for improvements, such as reducing grades, eliminating curvature for double track, and enlarging and improving terminals, etc., and the economies resulting from such expenditures have gone far toward offsetting the constantly increasing cost of operation. The possibilities of future economies resulting from further similar expenditures, have been very largely exhausted, so that if costs continue to go up, there would seem to be only one way now to meet the situation, and that by an increase of rates.

Under the recent amendment of the Interstate Commerce Law it is now impossible for the carriers to advance any rate unless such increase is approved by the Commission. This operates, as I view it, to place the credit of the railroads in the hands of the Commission, for the credit of the railroads is dependent upon the net earnings, and the net earnings will depend very largely upon the rate received.

Much has been said about what is a fair and reasonable return on money invested in railway securities. If the railways were finished and no new capital needed, it might then be interesting to discuss what rate of interest or dividend should be paid in the future on money borrowed in the past. That, however, is not the situation; the railroads are not finished and they will need and must have large sums in the future to enable them to provide such additional facilities as will be required to keep pace with the industrial growth of the country. The new capital needed will not be obtained by telling the man whose money is desired that he will be paid a *fair* rate. The man who has money to lend, taking him as a class, will decide, not what is a fair rate, but what is a *satisfactory rate to him* and in reaching that conclusion he will be influenced by many elements, not necessary now to refer to, but which taken as a whole constitute credit.

The question of what is a fair and reasonable freight rate is also a difficult one to determine. Certain it is, as I view it, that the sum of all such rates must at least be sufficient, when combined with efficient management, to furnish such net

earnings as will enable the individual road to obtain the necessary new capital when needed on a favorable basis, otherwise, because of impaired credit, money could not be raised at all, or if raised, then under such conditions as would probably add to the embarrassment.

The railroads have been built in response to a public demand based upon an actual need, which still exists. They have been built with private capital, furnished upon the expectation of making a profit out of the investment.

There is an implied promise that this property, built in response to the demand of the people, shall be allowed to make such reasonable charges as will yield it a fair compensation. Whatever prevents it from earning a fair return, virtually confiscates the property.

In the past, as I have shown, certain objectionable practices and abuses came about which greatly exasperated the people. The people then passed laws forbidding the things complained of, and also established a Commission to see that the laws were obeyed. Having still in mind, however, the evils of the past, the people, or those assuming to speak for them, have demanded additional laws regulating and restricting the railroads. Such laws have also been passed and not only have all the things originally complained of now been corrected or the machinery provided for such correction, but they have also placed in the hands of the Commission full control over the rates (something not originally demanded), but which means control of the revenues and all that that implies. Still further legislation, affecting revenues as well as cost of operation, is urged in many quarters.

What of the future? Speaking for myself only, I believe that the roads (referring to them again in a personal way), should recognize in the future more generally than they have done in the past, that while they represent private investment and on that account are under certain precise as well as implied obligations to their security holders, they are also charged with a public service to perform, and there are also certain clear and implied obligations in that direction, among which are these:

To treat all alike, giving as full consideration as possible to all reasonable requirements. In short, while giving full and proper consideration to the right of the security holders, to give fair consideration also to the rights and feelings of the users—they are partners in the enterprise.

I think the roads should keep out of politics. This makes it necessary to take the public into their confidence so far as possible, so that the public, being fully and correctly informed, may act intelligently and fairly towards the railroads.

I think the roads, through their proper officers, should co-operate as far as possible with the Interstate Commerce Commission in trying to bring about a better understanding on the part of all.

The Commission, newly charged with greatly increased responsibility incidental to increased power, will, I have no doubt, gladly welcome a spirit of co-operation on the part of the carriers. I have confidence in the intelligence and integrity of the Commission. It is the duty of the railroads to see that the Commission is fully informed concerning the roads' necessities. It is of great importance also, as I view it, that the atmosphere of public discussion should be so free from heat and animosity, that the Commission may be assisted and not impeded by public opinion so formed, in reaching just and wise conclusions. To this end, I believe most, if not all, of the railroads, by their present policy in dealing with the public, are earnestly endeavoring to avoid needless antagonism or misunderstanding.

I would not like to have it thought, because of anything I have said, that I am opposed to the policy of Government supervision of the railroads; on the contrary, I am convinced that, under all the circumstances, it is for the best interest of all—railroads as well as the public—that there should be effective Governmental regulation; but, it is also equally important that such supervision or regulation be fair as well as effective, and that it be not so extended as to destroy or discourage individual initiative and enterprise. I will even go so far as to say that I am also convinced that the only alternative to such control by the Government, as I have indicated, is Government ownership.

Personally, I am opposed to the Government ownership of the railroads, and I do not believe such a condition is imminent; nor do I believe there will be any real demand on the part of the people for such a change, provided such a policy of regulation, as I have indicated, is carried out; but, if it were imminent, I am too good an American to believe that the people of this country will ever give their support to any plan contemplating the purchase of the railroads by the Government,

which does not give fair and full consideration to the rights of those who have invested their money in railroad securities. The American people are not repudiationists.

I assume we are all equally interested in the prosperity of our country as a whole. We can not have such prosperity as we all desire while the second largest industry in the land, measured by capital investment, remains inert. I positively know that there is today in the minds of railroad managers a feeling of hesitancy, of uncertainty, as regards the future. Possibly that feeling is not justified by the facts, by the conditions. Possibly the managers are mistaken. None the less, the feeling is there and it is dominating the situation, and the all important question is—how can it be corrected? How can the feeling of distrust, which now rightly or wrongly so powerfully influences the policy of the railroads, be allayed? I should say by removing the cause, and, unless I have altogether failed to make clear what is in my mind, I think the cause, as I view it, should be apparent; but, to be specific, let the people who use the roads and want the roads, now indicate that, having secured the enactment of such laws as they considered necessary in order to correct the conditions complained of in the past, they are now willing (as I think they should be) to open a new account with the future. Let them show that they are willing, as I believe they are, that the roads should be treated fairly—they are entitled to nothing more, they should receive nothing less. Let them consider each new proposal for legislation with entire freedom from any spirit of retaliation. I do not say that it is necessary to undo anything already done (although experience may show such action to be wise in some instances), but I do say that the railroads should be given a respite from further legislation—State or Federal—for a time at least, and until they can work out some of the many new and complex problems now confronting them. If such a course should find favor in the minds of the people and be reflected in their attitude towards the carriers, I do not hesitate to say that the patient now indisposed would immediately show signs of convalescence.

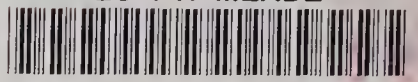
The remedy suggested is not a serious one. Is not the experiment worth trying?

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